



PLATINUM FINANCIAL

NURTURING YOUR FINANCIAL FUTURE

INTO/UTU Pre-Retirement Webinar



INTO/UTU Pre-Retirement Webinar : January 2021

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Your retirement won't take care of itself,
so don't leave it to chance. Make a start
today and let us help you experience the
retirement you deserve.

Understanding State Pension

The State Pension is a regular income paid by the UK Government to people who have reached State Pension Age. What you will receive depends on your individual National Insurance record.

National Insurance Credits are awarded if you claim benefits such as;

- ESA Benefit
- Jobseekers
- Child Benefit
- Carer's Allowance

A new Flat Rate State Pension Scheme was introduced on 5th April 2016 to replace the Two-Tier State Pension.

Two-Tier State Pension

The Two-Tier State Pension is made up of **Basic State Pension** and **Additional State Pension**.

In order to receive the **full** Basic State Pension, you must have made 30 years of National Insurance contributions.

Single person Basic State Pension as of 2021 is currently £134.24 per week.

Dependent's addition is currently £80.45 per week.

Additional State Pension is made up of;

- Graduate Pension (1961-1975)
- State Earnings Related Pension Scheme (1978-2002)
- State Second Pension (2002-2015)

The amount depends on your employment history.

You will have no entitlement if you were a member of a contracted-out pension scheme such as NI Teachers' Pension Scheme.



RETIREMENT INCOME

New State Pension

A new Flat Rate State Pension was introduced on 5th April 2016. This new scheme requires 35 years National Insurance contributions for you to qualify for the full amount and is currently capped at £175.20 per week.

Transitional arrangements in place – Contracted Out deduction

Deferring Your State Pension

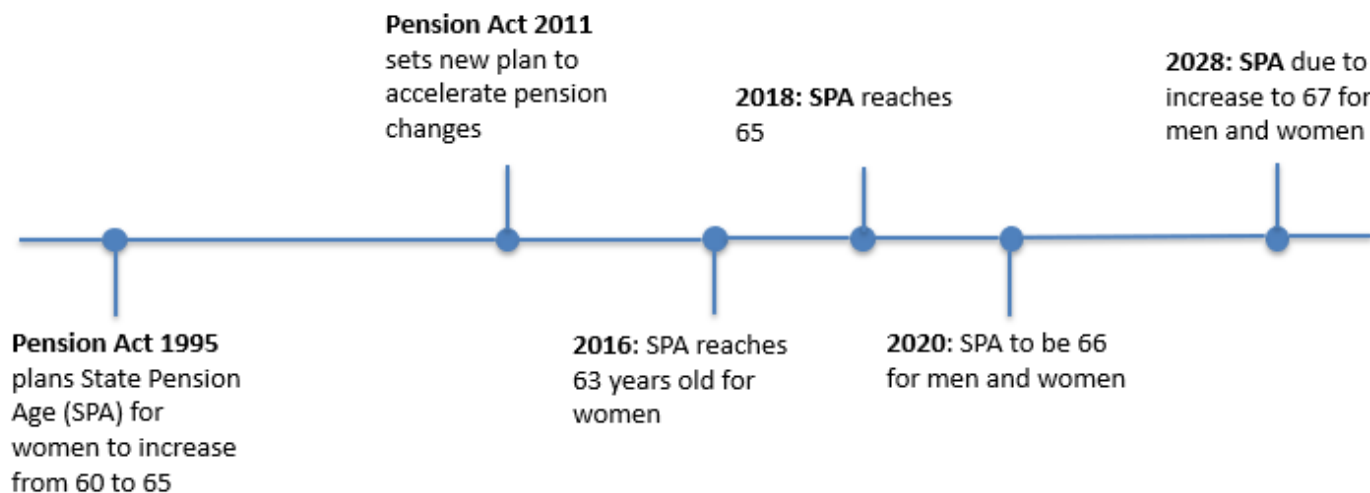
When you reach State Pension Age, you can defer claiming your State Pension. While deferred your State Pension will increase by 5.8% per year and there is no limit to the amount of time you can defer your State Pension. However, you can now only

- While deferred your State Pension will increase by 5.8% per year
- There is no limit to the amount of time you can defer State Pension
- You can now only receive your Deferred State Pension as increased weekly payments



RETIREMENT INCOME

State Pension Age – Timeline



State Pension forecast: www.gov.uk/state-pension-statement

**You will need your NI number and your payslip, P60 or passport*

NI Teachers' Pension Scheme

What is an Occupational Pension Scheme?

Occupational pension schemes are pension schemes set up by employers to provide pensions for their employees and generally fall into two categories;

- Defined Benefit Schemes
 - Defines the benefit you will receive in retirement
- Defined Contribution Schemes
 - Defines the contributions you and the employer pay towards your pension



RETIREMENT INCOME – NI TEACHERS' PENSION SCHEME

Teachers' Pension Scheme

There are two types of defined benefit within the scheme

- Final Salary Scheme
- Career Average Scheme (**CARE**)

Defined Benefit – Final Salary Scheme

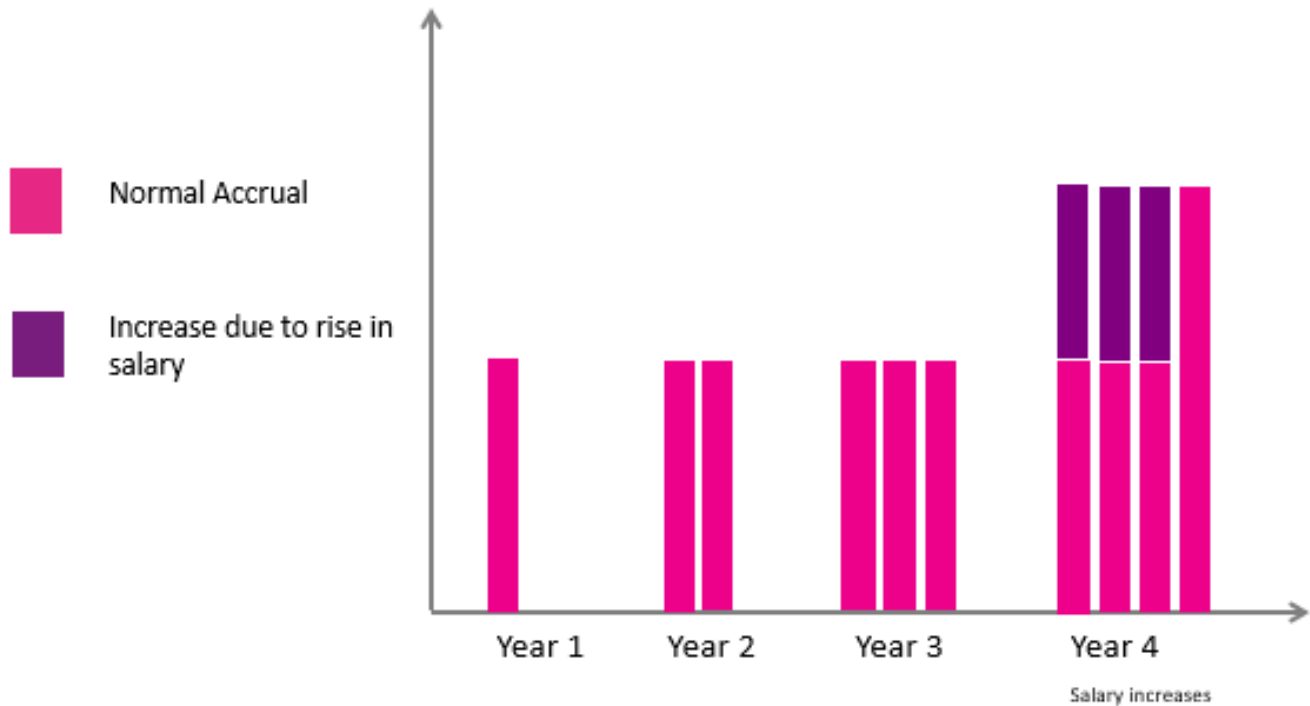
Within the Final Salary Scheme your pension is defined as a fraction of your final pensionable salary which is payable from normal pension age i.e. 60 years old.

The accrual rate of your pension within the Final Salary Scheme can differ, for example $1/60^{\text{th}}$ of $1/80^{\text{th}}$ for each year of service. It is worth noting that part-time members' service is reduced pro-rate, in line with the reduced hours. Your Pension is always based on full time equivalent salary.

RETIREMENT INCOME – NI TEACHERS' PENSION SCHEME

Defined Benefit – Final Salary Scheme

How Your Pension Builds Up



One of the benefits of the 80th/60th scheme is that they will also use the higher amount between your current salary or best 3 years average in the last 10 years – *Defined Pensionable Salary*.

RETIREMENT INCOME – NI TEACHERS' PENSION SCHEME

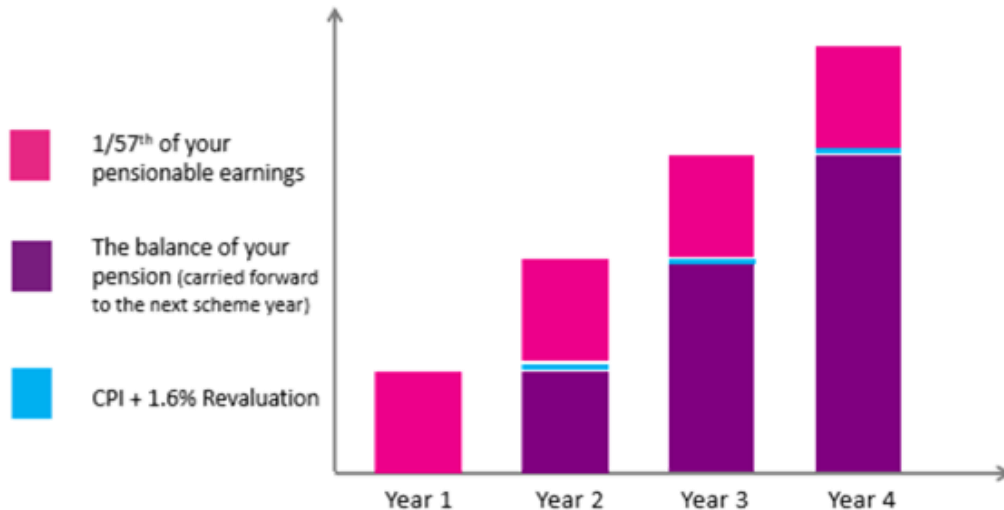
Defined Benefit – Career Average Scheme

Your pension is defined as a fraction of your annual pensionable earnings and is payable from normal pension age i.e. State Pension age.

The accrual rate of your pension within the Career Average Scheme can vary, for example $1/57^{\text{th}}$ for each year of service. However, the benefits accrued increase with CPI + 1.6% each year.

Defined Benefit – Career Average Scheme

How Your Pension Builds Up



The benefits for the Career Average Scheme may seem small on your statements in comparison to the 80th or 60th scheme as you will have only been paying in for a few years.



RETIREMENT INCOME – NI TEACHERS’ PENSION SCHEME

Teachers Pension Scheme Benefit Structure

Date Joined Scheme	Defined Benefit Type	Accrual Rate	PCLS	Retirement Age
Up to 31 st March 2007*	Final Salary	1/80 th	3/80th	60
1 st April 2007 – 31 st March 2015*	Final Salary	1/60 th	-	65
After 1 st April 2015	Career Average Scheme	1/57 th	-	State Pension Age

*NB. Please refer to rules on full and transitional protection. Subject to McCloud judgement.

Transitional Protection

- **Full Protection** – All members within 10 years of Normal Pension Age at 1st April 2012 remain within their original scheme.
- **Tapered Protection** – All members between 10 and 13.5 years of Normal Pension Age will be phased into the Career Average Scheme between 1st April 2015 and 1st February 2022.
- **No Protection** – All members more than 13.5 years from Normal Pension Age at 1st April 2012 will have moved to the CARE Scheme on 1st April 2015.

Benefits in your original scheme are protected but your final salary link is retained.
Currently under review due to recent legal challenge.

Definition : Final Pensionable Salary

The higher of:

1. Actual salary over the **last 12 months**; or
2. **Average of your best three consecutive years** salaries in the last ten years (re-valued to the current day by CPI)

In most cases, the average of the best three consecutive years in the last ten is used. This is due to pay rises during the last ten years having generally been lower than CPI.



RETIREMENT INCOME – NI TEACHERS’ PENSION SCHEME

Example Annual Pension Statement

ANNUAL STATEMENT OF ACCRUED PENSION BENEFITS AS OF 31 DECEMBER 2019

Full Name		Mrs A Sample		
Teacher Reference Number	12345	Date of Birth	12/12/1967	
Current Scheme Type	STAN50C			(see note 1)
Start Date of Reckonable Service	01/09/1990			(see note 2)
Pensionable Salary at 31 December 2019	£39,773.00			(see note 3)
Salary and Period used for 80 th and 60 th Scheme Calculation only	£43,040.95 01/01/2010 – 31/12/2012			(see note 4)
Your Pension Benefits	80 th	60 th	CARE	
Reckonable Service	24 Yrs 212 Dys	0 Yrs 0 Dys	N/A	(see note 5)
Gross Annual Pension (including Pensions increase)	£13,224.77	£0.00	£3,556.29	(see note 6)
Automatic Tax-Free Lump Sum?	Yes			
Automatic Tax-Free Lump Sum	£39,674.31			(see note 7)
Option Lump Sum Maximum Lump Sum (including Pensions increase)	£31,172.17	£0.00	£15,283.99	(see note 8)
Reduced Gross Annual Pension (including Pension increase)	£10,627.09	£0.00	£2,292.62	(see note 9)
In Service Death Grant	£119,319.00			(see note 10)
Lifetime Allowance	35.59%			(see note 11)

The figures in this statement are for illustration only and while every effort has been made to ensure accuracy, this statement confers no rights to the benefits quoted. In the event of any dispute over your pension benefit the appropriate legislation will prevail. If you require any further advice or projection of benefits to normal pension age, please contact an Independent Financial Adviser.



RETIREMENT INCOME – NI TEACHERS’ PENSION SCHEME

Your Annual Benefit Statement Explained

- 1) **Scheme type-** This is the pension scheme that you are currently contributing to which determines your Normal Pension Age (NPA.) a) 80th scheme (NPA 60); b) 60th scheme (NPA 65); c) Career Average Scheme (CARE) (NPA is equal to your state pension age or 65 whichever is higher) Career Average benefits are calculated by using an accrual rate of 1/5th applied to your pensionable earnings in the financial year (1 April to 31 March). At the end of each financial year the accrued earned pension is then revalued. The pension accrued in the following financial year is then added to this and at the end of that year the total amount is then revalued. This process is repeated in each subsequent financial year thereafter.
- 2) **Start Date of Reckonable Service** - This is the date of where you began to accrue reckonable service. **Please note:** Your start date of reckonable service may refer to the start date of your service period bracket rather than your actual membership start date. Service brackets are categorised as 01/10/1956-31/03/1972, 01/04/1972-31/03/1980, 01/04/1980- 31/03/1986 and 01/04/1986-31/03/1987. If your membership began within one of these periods, the start date of the applicable bracket will be given as your start date of reckonable service.
- 3) **Pensionable Salary-** This is the rate of full-time equivalent pensionable salary as at 31 December 2019.
- 4) **Salary and Period used in the calculation of your 80th/60th pension benefits** - This is both the salary rate on which your retirement benefits have been calculated and the period used to calculate the salary that provides you with the highest level of pension benefits. The scheme regulations define a number of methods that can be used to determine your average salary, and these are fully detailed on the Department's Website www.education-ni.gov.uk.
Please note: To calculate your pension benefits DE has used the best 1095 consecutive days (3 years) in your last 10 years of pensionable service, after each salary has been re-valued in line with the relevant inflation index. Revaluation of salary takes effect from the date each salary changes. CARE benefits are based on pensionable earnings in each financial year, or part thereof, rather than a final Average Salary.
*CARE benefits are based on pensionable earnings in each financial year, or part thereof, rather than a final Average Salary.



RETIREMENT INCOME – NI TEACHERS’ PENSION SCHEME

- 5) **Reckonable Service** - Reckonable Service is any service which counts towards your 80th and 60th pension. This includes your periods of employment for which you have paid pension contributions to the Northern Ireland Teachers Pension Scheme at 31 December 2019. If you have any periods worked in a temporary, part-time or pro-rata pensionable capacity, only the pensionable credit for those days worked will count towards your pension benefit. Your ABS also includes additional periods you may have purchased separately and any credits for benefits transferred in from other pension schemes. It is vitally important to check that your service details are correct as any errors may be time consuming to rectify at a later date, resulting in delays or incorrect pension benefits.

If there are any errors, please contact the relevant employer and ask them to notify us of the correction.

Please Note: Reckonable Service is not used in the calculation of Career Average (CARE) pension and has therefore been excluded in the CARE element of your ABS. Reckonable service details applies only to final salary schemes (80th and 60th) and the total reckonable service shown in the above statement will remain unchanged following any transition to the CARE scheme.

- 6) **Gross Annual Pension** - This is your gross annual entitlement that will be paid by the NITPS.
- 7) **Automatic Tax-Free Lump Sum** - Only applicable to members of the 80th scheme, however, all members have the option to commute some of their annual pension into a one off tax free lump sum. The statement illustrates the maximum amount of optional lump sum that you can currently receive and also the reduction to your gross annual pension should you wish to commute.
- 8) **Optional Lump Sum** - Maximum Lump Sum (including Pensions Increase) If you were a member of the scheme on or after 1st April 2007 you can convert, 'commute' part of your pension to receive a lump sum up to 25% of fund value. The above figure provides the additional lump sum you would receive if you were to commute the maximum 25%.
- 9) **Reduced Gross Annual pension** (including Pensions Increase) this is your new gross pension if you were to take the option of the maximum commutation.



RETIREMENT INCOME – NI TEACHERS’ PENSION SCHEME

- 10) In Service Death Grant** - The NITPS provides for different levels of death grant to be paid, depending on the type of scheme you are currently contributing to. If you are contributing to the 80th or 60th scheme the lump sum is three times the average salary. If you are contributing to the CARE scheme the lump sum is three times the full-time equivalent pensionable salary.
- 11) Life Time Allowance (LTA)** - Life Time Allowance is a limit on the total value of pension benefits that you can build up, without facing a tax charge on the value of the benefits. The percentage shown represents the value of your NITPS benefits against the LTA Further details on the LTA can be accessed at: <https://www.gov.uk/government/publications/reduction-of-pensions-lifetime-allowance/reduction-of-pensions-lifetime-allowance>



RETIREMENT INCOME – THINGS TO CONSIDER

Early Retirement

When you want to retire you need to complete a TP4 form with at least 3 months notice of your retirement to Waterside House. Should you require, our financial consultants can help with this.

Early Retirement is available to members aged between 55 and Normal Pension Age who have been in pensionable service on or after April 2007.

80th & 60th Schemes:

- Benefits are actuarially reduced
- Approximately 4% p/a

CARE Scheme:

- Benefits are actuarially reduced
- Approximately 5% p/a between ages 55 and 65
- Approximately 3% p/a between ages 66 and 68



RETIREMENT INCOME – THINGS TO CONSIDER

Early Retirement – Example

DOB 29/07/1966, age 53 now and started work in 1988.

Takes **early retirement** on birthday, **aged 55**.

- Deferred member of **80th Scheme, NRA 60**
- Early Retirement factor of 81.1%
- A **reduction of 18.9%** on pension and PCLS

- Active member of **CARE Scheme** from 01/04/2015
- **State Pension Age 67**
- Early Retirement factor of 56.1%
- A **reduction of 43.9%** on pension and PCLS (if applicable)

Occupational Pension Forecast: www.education-ni.gov.uk/services/teachers-pensions-calculations



RETIREMENT INCOME – THINGS TO CONSIDER

Increasing your Pension Provision

You can increase your pension provision by:

- Setting up and contributing to a standalone pension
- Purchasing Additional Pension through the NITPS
- Paying into the Teachers' AVC Scheme

CARE members can also increase their NITPS pension with:

- Faster Accrual Rate
- Actuarial Buy Out



RETIREMENT INCOME – THINGS TO CONSIDER

Phased Retirement – How it Works

Phased Retirement is available from age 55 with the agreement of your employer. Your salary must reduce by at least 20% for a minimum of 12 months otherwise, phased retirement will cease. You must access a percentage of your pension and PCLS (between 1% - 75%) to ease into retirement. Members should note that phased retirement is only available twice before final retirement. If in 80th/60th and CARE, you can access one and leave the other.



RETIREMENT INCOME – THINGS TO CONSIDER

Phased Retirement – Example

- Deferred member of 80th scheme (30 years), active member of CARE scheme.
- Takes phased retirement aged 58, access benefits from 80th scheme only.

• Gross annual salary before phased retirement	£40,000
• Drops to four days per week (20% reduction)	<u>-£ 8,000</u>
	£32,000

Reduction in income of £4,668 per annum after tax

• 80 th scheme at NPA	£15,000
• Early retirement factor applied (0.918)	£13,770
• Access 40% of 80 th scheme benefits	£ 5,508

Pension of £4,404 per annum after tax plus PCLS of £16,524

- 60% of 80th scheme pension benefits left untouched (unreduced)
- 100% of Care scheme untouched
- Accrue further CARE pension at 80% normal accrual
- Now working 4 days per week
- Income remains comparable



RETIREMENT INCOME – THINGS TO CONSIDER

Ill Health Retirement

There are two tiers to Ill Health Retirement;

- **Partial Ill Health Retirement** – Too ill to teach but able to undertake gainful employment outside of teaching.
- **Total Ill Health Retirement** – Too ill to undertake any gainful employment.

Ill Health Retirement Benefits

- **Partial Ill Health Retirement Benefits** – Immediate payment of your accrued benefits (without enhancement or reduction)
- **Total Ill Health Retirement Benefits** – Immediate payment of your accrued benefits plus an enhancement equal to half your prospective service (up to Normal Pension Age)



RETIREMENT INCOME – THINGS TO CONSIDER

Commutation

Commutation is available to all members when accessing benefits and provides the option to exchange a portion of your annual pension for additional Pension Commencement Lump Sum (PCLS) at retirement. The maximum amount you can receive as a lump sum is 25% of the total value of your benefits.

- *£1 of your pensions (taxable) can be exchanged for £12 of PCLS (tax-free)*

Commutation – Example

A member aged 60 retiring with a pension of £18,900 and PCLS of £56,700

- Can exchange up to £3,712 of their pension
- Additional PCLS of £44,550

- New pension £15,188
- Revised PCLS £101,250

Commutation Calculator – www.education-ni.gov.uk/services/teachers-pensions-calculators



RETIREMENT INCOME – THINGS TO CONSIDER

Taxation in Retirement

Income Tax Bands – 2020/21

Taxable Income	Rate of Tax
£0 - £12,500	0%
£12,501 - £50,000	20%
£50,001 - £150,000*	40%
£150,001 +	45%



RETIREMENT INCOME – THINGS TO CONSIDER

Income Tax Calculation – Example

Based on Taxable Income of £20,000

Gross Taxable Income	£20,000
Minus Personal Allowance	<u>£12,500</u>
	£ 7,500

£7,500 taxable @ 20% = **£1,500**

Gross Annual Income	£20,000
Less Tax	<u>£ 1,500</u>
	£18,500

Net monthly income = £18,500 / 12 = **£1,541.67**



PLANNING FOR RETIREMENT

Expenditure in Retirement

- Mortgage
- Rates
- Gas
- Electricity
- Home Heating
- Insurance
- Motoring
- Maintenance
- Food
- Household Items
- Travel
- Entertainment

Monthly Net Income £

Minus Monthly Expenditure £

Shortfall / Surplus per month = £



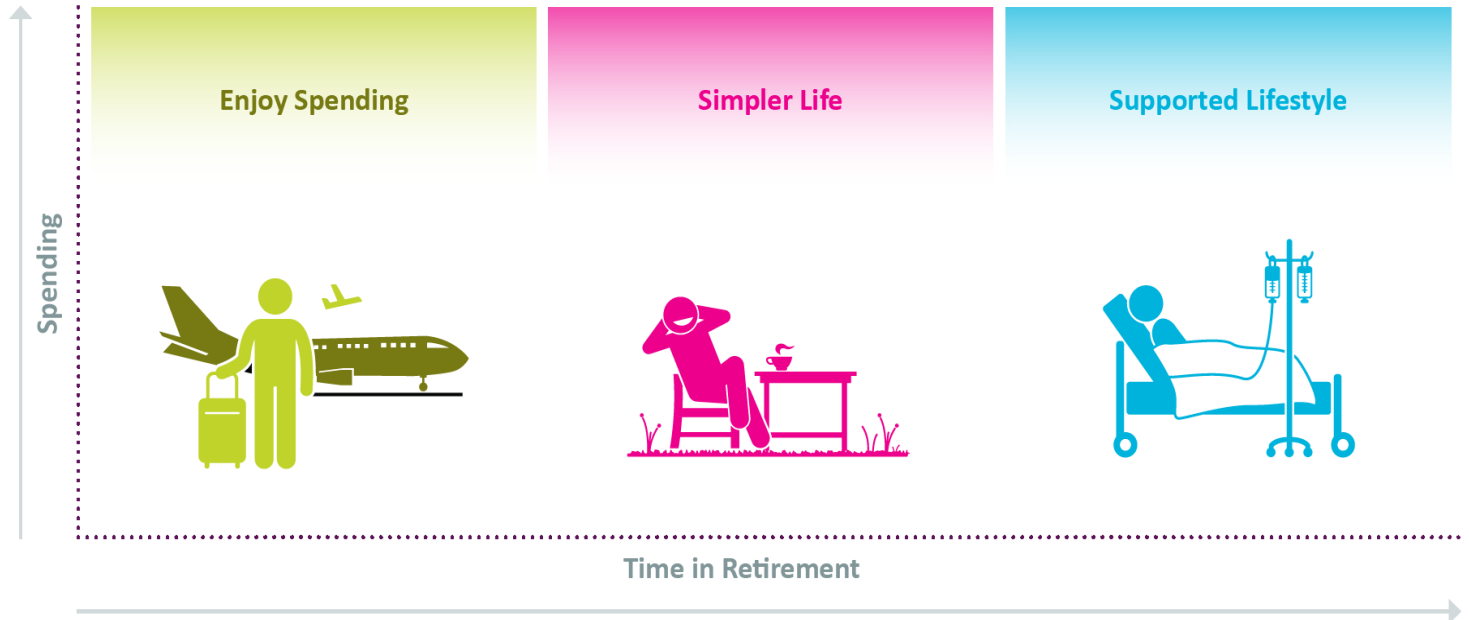
PLANNING FOR RETIREMENT

Pension Commencement Lump Sum

- Pay off any short-term debt
- Clear the mortgage on your home
- Home Improvements
- Emergency Funds
- Holiday
- New Car

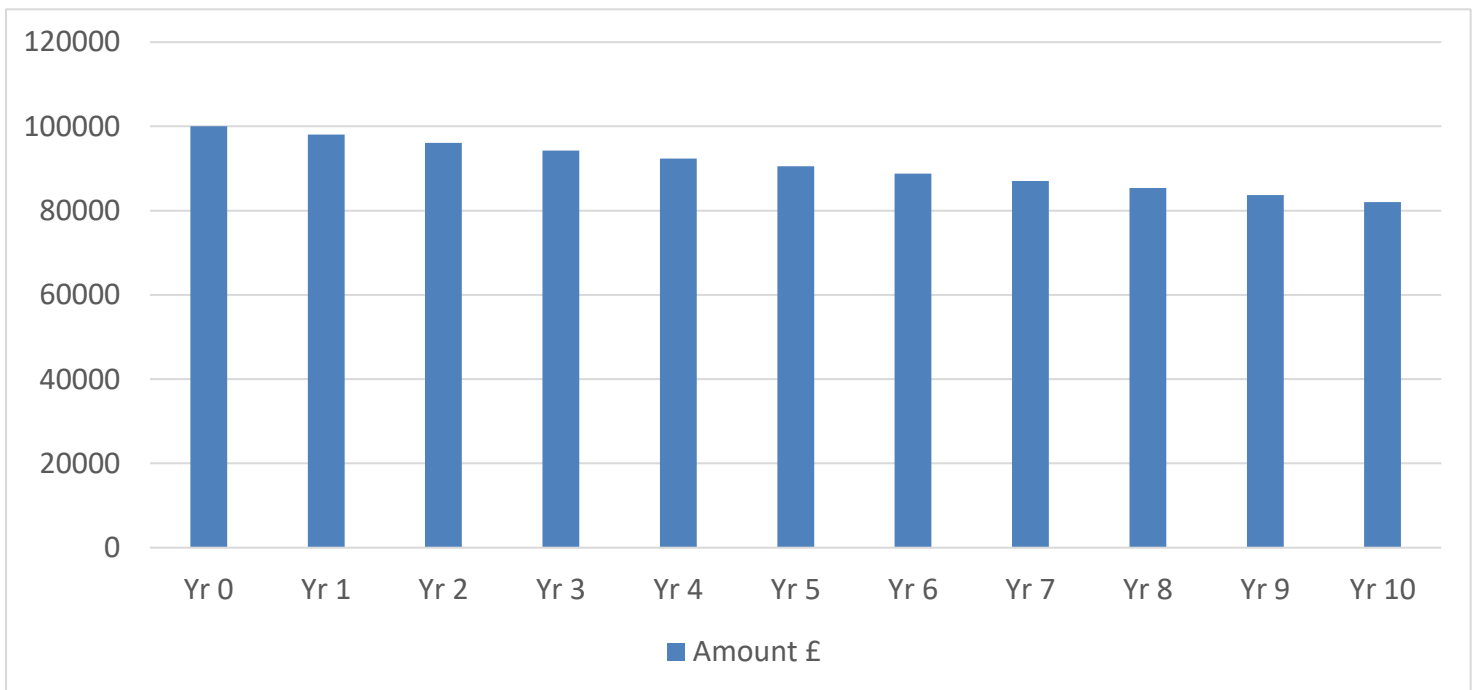
PLANNING FOR RETIREMENT

Spending in Retirement



The Effect of Inflation on Cash

Assuming £100,000 with no return and 2% inflation



After ten years the purchasing power has dropped to £82,034.83

Inheritance Tax Thresholds

Threshold	
Individual	£325,000
Married Couple	£650,000

In April 2017, a new main residence nil rate tax band began phasing in over 3 years. The residence nil-rate band applies to the **estates of people who die after 6 April 2017**. You must plan on leaving a home to your children or grandchildren.

The allowance was phased in and reached the maximum of £175,000 per person for deaths that occur after 6 April 2020 (£350,000 per couple).

This will increase your Inheritance Tax thresholds above the figures illustrated above depending on the value of your main residence that you plan to leave to your children or grandchildren.

Equity Release – The Basics

Equity Release can help boosting your capital/income in retirement by releasing equity from your home. There are various types of Equity Release schemes available and a 'No Negative Equity Guarantee' (ERC Members) can provide additional assurance in the unlikely event that your property has decreased significantly in value.

Equity Release is available from the age of 55 and may offer a suitable alternative to moving home or downsizing. However, Equity Release is not a viable option for everyone and you should consult a financial advisor before putting any plans for Equity Release in place.



ADDITIONAL INFORMATION

You only get one chance at retirement we're here to help you make sure you make smarter decisions to allow you the retirement you dream of.

What will my retirement income be?

When can I afford to retire?

How much money will I need in retirement?

Where will my money come from?

How long will my money last?

How will I know I've made the right choice?



ADDITIONAL INFORMATION

Risk Warnings

- This presentation is for information purposes only and nothing in it should be considered to be financial advice.
- A pension is a long term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.
- Equity release may require a lifetime mortgage or home reversion plan. To understand the features and risks, ask for a personalised illustration.
- You should always seek professional advice before making any financial decisions.
- We offer a range of services to help you meet your investment and/or retirement objectives. We provide independent investment advice on the terms which we will discuss with you as described in our important information about our services document.

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